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TongaatHulett®

Hippo Valley Estates Limited

TRADING UPDATE FOR THE YEAR ENDED 31 MARCH 2022 AND THE FIRST QUARTER ENDED 30 JUNE 2022

Operating Environment

Annual inflation accelerated from 72.7% in March 2022 to 191.6% in June 2022 as the economic environment remains volatile and hyperinflationary. Despite the merging of auction rate with Willing Buyer Willing Seller (WBWS) as the country official rate, the Zimbabwe Dollar (ZWL) suffered a 157% depreciation during the quarter ended 30 June 2022. The heightened volatility of the exchange rate has made the operating environment more challenging. The Company continues, however to pursue value preservation strategies in the hyperinflationary environment. Unemployment remains high, with the bulk of the population managing on the back of informal businesses and agricultural projects. While efforts continue to be made to liberalise the currency regime, to ease liquidity challenges and address inflation, economic conditions remain challenging.

Covid-19 Update

Over the past 3 months, cases from the Omicron-driven 4th wave have continued to decline globally. This trend has been mirrored within the Company's operations. Mid-way through 2021, the company, in a Public-Private Partnership, embraced vaccination as key in management of the COVID-19 pandemic. This program has been extremely successful and as at 15th May 2022, over 99% of the workforce had been vaccinated. This is ahead of the rest of Zimbabwe generally, where less than 50% of the population is vaccinated. The easing of lockdown restrictions and increased business hours in response to decline in COVID-19 cases is expected to continue aiding economic recovery efforts.

Operations

Cane and sugar production (tons)

	1st Quarter June 2022	1st Quarter June 2021	% Change	Full Year to 31 Mar. 22	Full Year to 31 Mar. 21	% Change
Tons cane harvested - Company	347 178	283 499	+22%	897 334	1 043 774	-14%
Tons cane harvested – Private farmers	235 264	270 024	-13%	768 804	592 722	+30%
Other third-party cane	-	1 310	-100%	26 065	55 439	-53%
Total tons cane milled – Company	**582 442**	**554 833**	**+5%**	**1 692 203**	**1 691 935**	**+0%**
Tons sugar produced – Company	**64 203**	**66 664**	**-4%**	**209 510**	**204 384**	**+3%**
Tons sugar produced – Industry Total	**119 430**	**128 044**	**-7%**	**390 415**	**408 260**	**-4%**

Production for the year ended 31 March 2022

Cane deliveries from the Company's plantations (miller-cum-planter) decreased by 14% from prior year. This was mainly due to lower yields that emanated from a combination of yellow sugarcane aphid infestations and water logging of soils induced by incessant rains received between December 2020 and March 2021 that adversely impacted crop development. In addition to this, early start-up of the milling season in April 2021 resulted in crushing of younger cane occasioned by a strategic decision to reposition the milling season so as to maximise growing and milling efficiencies in future seasons. Private farmer deliveries improved by 30% due to an increase in area harvested largely attributable to new developed area under the Kilimanjaro project and 'carry-over' cane from the previous season. Overall, total cane milled was in line with prior year, as the drop in miller-cum-planter was offset by private-farmer deliveries. Sugar produced by the Company increased by 3% due to better cane quality and favourable mill efficiencies. The requisite off-crop maintenance work was satisfactorily carried out from December until start-up of crushing season in May 2022 thereby positioning the mill for improved performance in the 2022/23 production year.

Production for the quarter ended 30 June 2022

Cane deliveries from the Company's plantations (miller-cum-planter) for the quarter ended 30 June 2022, were 22% above same period prior year driven by a combination of increased harvesting targets in line with total crop projections, a more efficient cane haulage system and improved mill uptime. However, cane deliveries from private farmers were below prior year on account of rains received in April 2022 which resulted in the delayed onset of harvesting. Whilst cane deliveries were higher than prior year on account of improved yields for cane harvested, sugar production to date is 4% lower than same period in prior year largely as a consequence of lower cane quality due to a prolonged wet spell that prevailed in the region. Cane quality is however expected to improve into the drier peak sucrose period.

Marketing Performance

Marketing performance for the year ended 31 March 2022

The Zimbabwe sugar industry has a single marketing desk at brown sugar level, administered by Zimbabwe Sugar Sales (Private) Limited (ZSS). The Company's share of total industry sugar sales volume of 394 000 tons (2021: 440 000 tons) for the year ended 31 March 2022 was 53.2% (2021: 50.0%). Total industry sugar sales into the domestic market for the year at 356 000 tons (2021: 325 000 tons) were 10% higher than prior year, driven by strong domestic demand. Industry export sales however, decreased by 67% to 38 000 tons (2021: 115 000 tons) following redirection of supply to the local market in view of the increased demand. Price realisations on the local market also remained firm in current purchasing power terms. While local market USD sales were firm at the beginning of the year, these subsequently slowed down owing to limited availability of foreign currency within the economy.

Marketing performance for the quarter ended 30 June 2022

The Company's share of total industry sugar sales volume of 94 257 tons (2021: 98 718 tons) for the quarter under review was 54.5% (2021: 52.1%). Total industry sugar sales into the domestic market for the quarter at 84 228 tons (2021: 91 645 tons) decreased by 8% compared to same period prior year largely due to reduced production as well as purchasing power constraints experienced by customers. The price realisations in both local and foreign currency on the local market suffered negatively from the adverse exchange rate dynamics on currency. Management continues to align local prices to changes in cost structures where possible.

Projects and initiatives

Hippo Valley Estates Limited, in partnership with sister company Triangle Ltd, Government and banks continue to progress the cane expansion project, Project Kilimanjaro. Government has since allocated 700ha of the developed sections of the 4 000ha Kilimanjaro Project to 41 new beneficiaries as part of the economic empowerment and social transformation process. Harvesting of the 562 ha fully planted is in progress with some very good yields being realized, whilst the balance of 138ha is currently being planted to complete the Empowerment Block. Development on the remaining 3 300ha (of which 1931ha are fully bush cleared, land preparations and other infrastructure substantially progressed) remain on hold pending resolution of tenure issues relating to this block, which are being progressed with Government, further to which appropriate funding mechanisms will be put in place.

In order to further contribute to socio-economic transformation and to facilitate inclusion of more local farmers in the sugar value chain, the Company together with Triangle Ltd, is actively assisting new farmers who have been allocated virgin land with clear water rights and in areas close to the mills, with technical and commercial feasibility studies, mobilization of funding and where required actual development of the land to sugarcane on a full cost recovery basis. Good progress has been made with respect to the development of 1 168ha of Pezulu Project with one local bank having availed US$5,2m (about 50% of the total development cost) with other banks indicating a willingness to fund the balance.

Following recommendations from the Ministry of Industry and Commerce, a Tribunal constituting of three arbitrators was set up to determine commercial issues relating to the sugar milling agreement for the 2022/23 milling season. The arbitration is at an advanced stage, with anticipation of concluding the process within the current milling season.

The inputs and extension support to private farmers is ongoing. The Company continues to implement various vertical and horizontal sugarcane growth programs. A partnership framework whereby Tongaat Hulett Zimbabwe is co-managing certain underperforming out-grower farms is progressing satisfactorily. To date, 61 farmers have volunteered to partner with the Company in the co-management arrangement. Under the co-management framework some 593ha have been ploughed out and replanted to new roots.

Land tenure

Further to the previous update on progress with regard to land tenure, the Company advises that as at 30 June 2022, the Minister of Lands, Agriculture, Fisheries, Water and Rural Development (Ministry) had initiated the process for the issuance of 99-year leases with 3 lease blocks (out of a total of 8 lease blocks) issued in respect of Hippo Valley North. In consultation with the Ministry, the Company has requested certain changes to be effected on the lease documents, a process now being undertaken by Government Attorneys. The Minister has assured the Company that the balance of leases will be signed once the review of the 99-year lease document has been completed. The Company is appreciative of the continued support it is getting from Government on this matter.

Delay in publication of Annual Financial Statements for the year ended 31 March 2022

Following the extension in the publication of its Audited Financial Statements granted by the ZSE on the 27th of June 2022, the Company intended to resolve certain technical matters with its Auditors by 29th July 2022. However, the consultation processes, which are still ongoing, have taken longer than envisaged and hence, the Company advises that it is no longer able to publish its Abridged Audited Financial Statements for the Financial year ended 31 March 2022, within the revised timeline.

The two pending technical matters relate to Biological Assets *International Accounting Standards 41:* fair valuation of standing cane and Inventories *International Accounting Standards 2:* valuation of sugar stocks. The outcome following finalisation with the auditors might materially affect both the Company's current and prior year financial statements, primarily the inventory and biological asset balances. The changes are however not envisaged to affect its cash flow position.

The Company will therefore publish its Abridged Audited Financial Statements by the 31st of August 2022 and regrets any inconvenience this may cause to our valued stakeholders.

Outlook

With Tugwi-Mukosi and Mtirikwi Dams close to full capacity, the industry is set to accelerate opportunities for horizontal expansion with new sugarcane projects, feeding off this robust water system, mainly for the benefit of new farmers who are keen to supply the cane to the mills. Water supply to the Mkwasine Out-Growers is however currently constrained on account of challenges on the Siya-Manjirenji system, however there is ongoing work to attend to the issue. The industry is also working closely with the National Water Authority to enhance the industry water conveyancing infrastructure, to cope with the increasing farming and irrigation activities in the Lowveld. Significant improvements in yields on existing farms are expected in coming years at the back of continued technical support being extended to the farmers by the Company and the Zimbabwe Sugarcane Experiment and Research Station (ZSAES) in replant programmes, introduction of new varieties, focus on best farming practices and mechanization. The resultant increase in cane supply to the mills should improve operating efficiencies and cost competitiveness. The current crop is projected to yield more than the prior season following improved irrigation regimes, repairs to pumping installations and proactive initiatives to contain the yellow sugar cane aphid discovered in the region.

Although local demand for sugar remains strong as industry recovers from the impacts of COVID-19, the sugar industry is engaging authorities to ensure an even competitive playing field against cheap imports of sugar originating from surplus producers who enjoy duty protection in their host countries. This is also in an attempt to safeguard the health of the local population as some of the sugar imported is not Vitamin A fortified, as required by law. The substantial off-crop maintenance programme has been successfully completed and the mills have started the new season well with focus being on increasing production and capitalising on efficiencies.

Operating and trading conditions are likely to remain challenging in the current milling season, with farmers and millers contending with high cost pressures on account of both local and global inflationary dynamics, exchange rate volatilities, high cost of funding and supply chain bottlenecks, resulting in pricing of local products difficult in the short to medium terms. Procurement strategies for key raw materials have been enhanced and the Company anticipates being able to secure the critical inputs required for operations. It is also pleasing to note that the authorities are open to engagements with the industry on the key issues of duty-free imports of sugar and appropriate pricing models to ensure that the industry remains viable whilst protecting consumers.

By Order of the Board

C F Dube
Chairman

A Mhere
Chief Executive Officer

03 August 2022

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